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C O N F I D E N T I A L SECTION 01 OF 03 SHENYANG 000019

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SUBJECT: SENIOR HEILONGJIANG OFFICIALS ON STABILITY-RELATED
ISSUES: INFLATION, SOE WAGE ARREARS, LAND DISPUTES AND
"MINSHENG"

REF: A. (A) SHENYANG 14

[1](#)B. (B) 2007 SHENYANG 252

Classified By: Consul General Stephen Wickman; reasons 1.4 (b)/(d).

[1](#)1. (C) SUMMARY: Inflation is a pressing concern for senior Heilongjiang officials, who are implementing a full range of countermeasures not always made public in order to avoid a panic. Along with new export taxes, the policy of supplying grain and coal nationwide to cover excess domestic demand is likely to shrink Heilongjiang's exports to Russia, North Korea and elsewhere. In a bid to stimulate growth and stem potential social discontent, Heilongjiang will be a major beneficiary of a massive repayment of back wages to employees of the province's many state-owned enterprises. Senior officials privately acknowledged recent events in Fujin--where a land-rights dispute late last year attracted international media attention--but dismissed the farmers involved as "unreasonable." Officials gripe that Heilongjiang's disproportionately large contribution of revenue to Beijing has constrained development. The province is still struggling with economic restructuring, and U.S. firms may have a role to play. END SUMMARY.

[1](#)2. (SBU) CG and Congenoffs traveled January 30-31 to Heilongjiang Province, a national agricultural powerhouse still home to a substantial portion of the PRC's heavy state-owned industry, for meetings with senior officials, including the province's newly-appointed governor, Harbin's mayor, and scholars at the Heilongjiang Academy of Social Sciences (HASS).

INFLATION CONCERNS; GRAIN, COAL EXPORT PULLBACK LIKELY

[1](#)3. (C) Inflation remains one of the key concerns among senior Heilongjiang officials right now, a point consistently echoed in ConGen's meetings throughout northeast China of late. New Governor LI Zhanshu cited rising commodity prices as a major worry, while Harbin Mayor ZHANG Xiaolian told the CG that Heilongjiang officials are purposely not "publicizing" the full range of countermeasures they are taking, lest the publicity encourage a panic among the public. But despite concerns about the impact that domestic inflation and new export controls will have on the province's exports--particularly in the agricultural sector--officials seemed to suggest the province was better positioned to weather the proverbial storm than others elsewhere in China.

14. (SBU) Heilongjiang's agricultural sector has remained "fundamentally stable" over the past year, according to HASS President QU Wei. Qu noted that Heilongjiang's ample grain production (39.5 billion kilograms in 2007) continues to grow, bolstering the country's national strategic reserve (to which Heilongjiang's contribution is unclear). Heilongjiang this year will "export" most of its surplus domestically; Qu reasoned new Chinese export tariffs would likely shrink grain exports abroad, including to neighbors like Russia and North Korea (refs A and B). Governor Li agreed that the Heilongjiang crop was currently sufficient to fill shortfalls in other provinces, but he worried that prices in Heilongjiang might be forced up if too many sales outside the province are made at once. Coal, of which Heilongjiang is also a major national producer, seems to be headed in the same direction. The Governor claimed "some" exports abroad will continue this year (e.g., to Japan) but that most of this year's production is slated for domestic use. Qu Wei noted that the rising price of oil has been a boon to Heilongjiang's mostly state-owned coal companies, which after years of sustaining losses of "several billion" renminbi (RMB) per year, are now turning a profit.

SOE WAGE REPAYMENT AND LOW-COST HOUSING FOR "MINSHENG"

15. (SBU) "Minsheng" (the people's livelihood), a key concern of President Hu and Premier Wen, tinged with stability-related undertones, is also weighing heavily on Heilongjiang officials. They are looking to two major initiatives to stimulate demand in response to a rate of development that Governor Li admitted privately is "too slow." The first is the massive repayment of back wages to current and former employees of state-owned enterprises

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(SOEs). Heilongjiang is home to roughly one-third of the PRC's SOEs, which owe "several billion" RMB in back wages to workers throughout the province, according to Harbin Mayor Zhang. Starting this year, Beijing and Heilongjiang will together repay all the back wages in the province. In Harbin alone, roughly 180,000 former SOE workers are still owed over RMB 1 billion (USD 138 million). The central government in Beijing, matched to a lesser extent by Heilongjiang, will repay sixty percent of the arrearages by April, and the remainder by the end of 2008, according to Zhang.

16. (SBU) The second initiative, also clearly a beneficiary of generous funding from Beijing, is a rapid expansion in the construction of low-income, urban housing, a program that has generated important goodwill for responsible officials elsewhere in northeast China (e.g., Li Keqiang's successful slum-renovation program in Liaoning Province). Harbin is one major locus. Mayor Zhang Xiaolian said the city's program started seven years ago--rather early compared to others nationwide--and initially functioned via a lottery of sorts. Under the new program, the neediest families immediately qualify, and "many" in the city are already beneficiaries of new housing. More residents will join their ranks as additional regulations phase in by 2011 to "capture" the slightly less needy. In 2007, Harbin moved 3000 families into new low-income housing, which residents have an option to purchase after five years. Mayor Zhang concluded with a "conservative" estimate that envisions the addition of one million square meters of new low-income housing space in 2008, followed by an additional 16 million square meters within five years. HASS' Qu Wei claimed Beijing would assume between one-quarter and one-third of the total tab.

LAND-RIGHTS DISPUTES: FUJIN AND BEYOND

17. (C) Senior officials privately acknowledged but offered an incomplete "take" on recent events in Fujin--a city near Jiamusi where a land-rights dispute that had attracted international media attention came to an abrupt end in

December/January after authorities incarcerated the two farmers-turned-land-rights-activists leading the charge. GUO Xiaohua, the new Secretary General of the Heilongjiang provincial government following several years as Party Secretary of Jiamusi (which administratively supervises

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Fujin), said the government had dispatched investigation teams "several times" to look into the Fujin conflict, which media reports say erupted in late 2007 when local farmers started redistributing collective farmland among themselves, demanding private ownership. Guo, selectively omitting unfavorable details documented in media reports, claimed that rights to use the land had been ceded to a South Korean land developer pursuant to a contract signed by the farmers many years ago. Guo criticized the Fujin farmers' demands as "unreasonable," alleging that they were simply seeking to rewrite a contract with which they were no longer satisfied. (NOTE: According to media reports, local officials actually reclaimed the land in the 1990s after the ROK firm walked away and the farmers had already made improvements of their own. END NOTE.)

¶8. (C) HASS President Qu Wei, who said he has researched land-rights issues for the provincial Party Committee, claimed Heilongjiang has not seen "too many" problems on this front, in part because of the province's vast size and relatively low population density--one-thirty-fifth of the PRC's population on one-tenth of its land mass. Qu, like other scholars and several journalists we encountered, claimed not to have heard of the Fujin dispute, but he did acknowledge that land-use abuses occur and are not helped by the "underdeveloped" legal system. Heilongjiang, he said, is starting to pay increasing attention to land-use regulations, as well as various models for relocation/compensation when residents must be moved for new development.

OFFICIAL CARPING ON REVENUE-SHARING

¶9. (C) A surprisingly critical refrain we heard on a number of occasions concerned Heilongjiang's disproportionately large contribution of revenue to Beijing, something Governor Li suggested had constrained the speed of

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provincial development. Heilongjiang, for instance, is contributing RMB 6 billion (USD 833 million) in national taxes every year, not including RMB 10 billion (USD 1.4 billion) in proceeds from the Daqing oil fields, which are used outside Heilongjiang to fund western China's and overseas oil exploration/development projects, according to Qu and Governor Li.

COMMENT

¶10. (SBU) With its new SOE wage-arrears scheme, Beijing seems to be redirecting the "northeastern revitalization" drive, which was launched in 2003 and which thus far has disproportionately benefited Liaoning Province. Harbin in particular looks set to benefit. The city is already humming along, with a per capita income of RMB 12,700 (USD 1760)--some 25 percent higher than in the rest of the province. The provincial capital now comprises 36 percent of Heilongjiang's total production, 40 percent of its fixed-asset investment, half of its service sector, and more than one-quarter of its grain production, according to Mayor Zhang.

¶11. (C) Even in Harbin, however, one is still struck by the weight of the past. Over one million of Heilongjiang's laid-off SOE workers are now seeking higher wages elsewhere in China (or in Russia). Industrial restructuring is slow, and manifold difficulties remain. Although officials pepper their talking points with pleas for U.S. firms to invest, happily reporting that the United States is

Heilongjiang's second largest trading partner and a source of investment from over 300 firms, there are few examples of successful joint ventures involving SOE partners. Gleason Cutting Tools, for example, is seeking to dissolve a venture it set up only a few years ago with Harbin Number One Machine Tool Company, a city-owned SOE that owns a less-than-controlling, 30-percent stake in the joint venture. The SOE partner is using every means at its disposal--including mobilizing laid off workers to threaten the U.S. partner--to keep its retail arm from having to pay out millions of dollars in arrears and possibly to seize Gleason's equipment and technology. The U.S. company is seeking to save its equipment and form a wholly-owned venture. Harbin is not out of the question, the beleaguered U.S. managers say, but the tactics of the Harbin partner have caused Gleason to think long and hard about investing here even though many important clients are nearby.

WICKMAN